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Google Music not living up to expectations (exclusive)

Google Music was supposed to have an inside track marketing music to the 200 million Android users, but performance so far is not what was expected.



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Three months after launching, [Google Music](#) hasn't lived up to expectations, CNET has learned.

Google's managers have told counterparts at the labels that customer adoption and revenue are below what they expected, according to multiple sources with knowledge of the talks.

Google Music has been live for barely a full quarter, so nobody is panicking. Google has yet to throw the full force of its marketing muscle behind the service, and managers have told the record companies that they are trying to correct certain issues. Still, the numbers are low enough for some in the music sector to be concerned, the sources said.



The Google Droid was a centerpiece at Google Music's launch party on Nov. 16, 2011.

Greg Sandoval/CNET

A Google representative declined to comment.

Google Music was supposed to be a music powerhouse. As a companion service to Android-powered mobile devices, the service has

a massive potential user base. At the time of Google Music's November launch, there were more than 200 million activated Android phones and tablets.

If Google managed to convert just 10 percent of those device owners, it would mean 20 million customers. Google Music sells downloads, and also streams songs to users who store their music libraries on the company's servers. The service sells tracks from a host of indie labels as well as three of the four top major record companies. Google has yet to license tracks from Warner Music Group.

Google managers have told label executives that the service will get a boost once Google implements its hardware strategy, the sources said. Google plans to start competing against Apple by building an array of consumer devices.

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Two weeks ago, The Wall Street Journal reported that [Google is building a wireless](#) entertainment system that will stream music throughout the home.

The troubled start for Google Music comes as the music sector shifts attention away from downloads and onto subscription services, such as Spotify, Rhapsody, and Rdio. These companies sell consumers access to huge pools of songs for a monthly fee.

Handset manufacturers and network providers, such as Research In Motion, T-Mobile, Cricket, and [MetroPCS](#) have bolstered their music offerings.

Just last week, CNET reported that [Microsoft has held talks](#) with some of the record companies about creating a new digital music store that would serve owners of the Xbox gaming console as well as buyers of an upcoming Windows-based phone. The parties have discussed the possibility of streaming music as well as selling downloads.

Phones are important to the labels. They see a future where subscription services offer unlimited access to music and the fees are wrapped into phone bills. The thinking here is that this will make the consumer's buying experience much more painless.


So is Google Music out of step with current music tastes?

The record companies didn't think so when Google first approached them in 2010. The recording sector couldn't be happier that a company with Google's money and marketing might would be taking on iTunes. Because of Apple's domination of music sales, Apple has been able at times to dictate terms to the labels.

Despite all the excitement surrounding subscription services, it remains to be seen whether these services are very profitable.

The music industry is still too much in flux to say who the winners or losers are.

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